

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BELIZE

TRADE AND INVESTMENT FACILITATION PROGRAM FOR BELIZE

BL-L1040

PROJECT PROFILE

This document was prepared by the project team consisting of: Mario Alberto Umaña, Team Leader (INT/TIN); Queila Delgado (INT/TIN); Maria Cecilia Deza (CID/CID); Enrique Ignacio Barragan Crespo (LEG/SGO); Hero Ranjit Balani (CID/CBL); Alexis Bryant (CID/CBL); Brodrick Raylando Watson (VPC/FMP); Christian Lunstedt Tapia (VPC/FMP); Christian Volpe (INT/TIN); Christian John Marquez (INT/TIN); Angela Carmelia Dorantes Gomez (INT/TIN).

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PROJECT PROFILE

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I. BASIC DATA

Project Name: Trade and Investment Facilitation Program for Belize

Project Number: BL-L1040

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Borrower: Belize

Loan Modality: Specific Investment

Executing Agency: Ministry of Finance, Economic Development and Investment (MFEDI)

Financial Plan: IDB (Ordinary Capital): US\$ 8,000,000

Total: US\$ 8,000,000

Safeguards: Risk Classification: Low

Impact classification: C

Processing track: ☒ Standard ☐ Special

Country Strategic Alignment: Yes

Strategic Alignment:

Challenges: ☐ Social Inclusion ☒ Productivity and Innovation ☒ Economic Integration

Crosscutting: ☒ Gender Equality ☐ Diversity ☐ Environmental sustainability ☐ Climate Change ☒ Institutional Capacity and Rule of Law

II. GENERAL JUSTIFICATION AND PROGRAM STRATEGY

- 2.1 **Background.** Belize has a small and open, private sector-led economy based primarily on tourism, agriculture, and other services. It is vulnerable to internal and external shocks, including natural disasters, resulting in a highly volatile Gross Domestic Product (GDP) growth and a significant widening of the trade deficit. Belize's pace of economic growth exceeded that of Latin American and the Caribbean (LAC) economies in the 1980s, 1990s, and the early 2000s. However, Belize's real GDP average growth slowed from 4.7% between 2000 and 2009 to only 2.3% between 2010 and 2019, being the only country in Central America to register a decline in GDP per capita in the last decade.¹

¹ [Martin, L., Leslie, J., Ruiz-Arranz, M., López-Ghio, R. & Vasquez, G. \(2021, February\) BIDEconomics, Belize Developing a sustainable resilient and inclusive Belize 2021.](#)

- 2.2 **Stagnation and COVID-19.** The pandemic has exacerbated the fragility and volatility of the Belizean economy, causing a 72% decrease in tourist arrivals in 2020, and a decline in activity in contact-intensive sectors, resulting in a contraction of real GDP of 16.7% in that year. The economy rebounded partially in 2021, growing 9.8%, with unemployment almost going back to pre-pandemic figures.² The International Monetary Fund (IMF) estimates for 2021 a modest growth of real GDP of 5.7%, with unemployment figures to continue decreasing to 8.2% in 2022. The fiscal position deteriorated markedly, with the primary deficit widening from 1.3% of GDP in FY2019/20 to 8.4% in FY2020/21. The government was able to react and reduce debt/GDP ratio from 127.4% in 2020 to 111% in 2021, and a projection of 101.9% in 2022, based on a strong fiscal discipline. context.³
- 2.3 **Diagnostic of the problem.** Belizean exports are concentrated in a few agricultural products (sugar, banana, citrus, and marine products account for 77%)⁴ and tourism origin markets (US and Canada). The tourism sector constitutes 39% of GDP, 40% of total employment and 42% of total exports in 2019.⁵ It is also limited by geographic concentrations focused on sand and beach activities and few local inputs. Foreign Direct Investment (FDI), mainly linked to the tourism sector, has decreased annually since 2014, except for 2018. In 2019, FDI declined 18% and a further 18.9% in 2020.⁶ Belize has modest trade flows, with a Trade to GDP ratio of 54.7.⁷ Both sectors have been dependent on trade preferences and few export markets, making them highly vulnerable to internal and external shocks. In the agriculture sector, there is a low complexity of the existing narrow export basket (four products count for 60% of the official production value), and low firm-level technology absorption and capacity for innovation. The tourism sector is also limited to geographic concentration, focused on sun and beach activities, and has few local inputs.
- 2.4 Even though the external sector is the key engine of growth for Belize, its export basket comprises goods typically exported by countries with lower degrees of income. It is considered unsophisticated even when compared to other small states in the region with dominating service industries. Despite Belize having been the third LAC country to ratify the World Trade Organization (WTO) Trade Facilitation Agreement (TFA),⁸ the implementation of trade facilitation measures has been slow, and activities to promote, facilitate and retain FDI in Belize have been limited. Support to foreign companies, policy advocacy efforts, local suppliers, and business intelligence are also limited due to underfunded BELTRAIDE.⁹ The country also lacks a digital Single Investment Window (SIW), which would expedite business procedures, reduce paperwork, and facilitate FDI.
- 2.5 **The project's strategy** is to support the transformation of the external sector through diversification (attract more diverse FDI), integration (facilitate trade with

² [World Bank, Data.](#)

³ [IMF Datamapper \(2021, October\).](#)

⁴ Ibid supra note 1.

⁵ Ibid supra note 1.

⁶ [World Bank, Data.](#)

⁷ [Belize Directorate General for Foreign Trade.](#)

⁸ Idem.

⁹ Statutory body of the Government of Belize to promote exports, investment, and entrepreneurship.

neighbor countries) and innovation (promote positive spillovers of FDI) in a context of limited fiscal resources. The operation will implement a digital SIW and support the efforts to design and implement an Electronic Single Window for Trade (ESW), to facilitate trade and investment procedures while contributing to government transparency and efficiency. Interventions will be implemented to support the increase of FDI flows into Belize's economy through general promotion and facilitation tools, without detriment of piloting some efforts on key strategic sectors.¹⁰ The project will promote increased FDI in diversified sectors, which in turn will help expand the export baskets. The ESW will contribute to export diversification, as evidence shows that trade facilitation initiatives contribute to diversify the base of export companies, the markets and the group of buyers abroad.¹¹ The project will promote positive spillovers in the local economy through a suppliers' program, which will generate indirect exports and a base of export-ready companies. To encourage gender equality in shareholding and boards of companies, the following is being discussed with the Government: (i) include gender as part of the selection criteria for technical support to Small and Medium-sized Enterprises (SMEs); and (ii) gather data regarding female participation in companies.

- 2.6 **Facilitate investments.** Some of the main factors that undermine private investments in Belize are: (i) the procedures and delays for starting a business¹², (ii) scarcity of technical-vocational training.¹³ Another factors are the concentration of investment in certain parts of the country¹⁴ and not having disaggregated gender data to evaluate the impact on gender equality goals.¹⁵ The activities proposed in Component 1 will deal with these issues by facilitating investment in broader areas of the country, providing transparency, and gathering data through the SIW.
- 2.7 **Promote FDI and develop an export-ready base of local SMEs.** FDI contributes to job creation and economic growth. There is evidence that from every US\$1 invested in FDI promotion, an additional US\$56 of FDI can be generated.¹⁶ In this regard, an important challenge to attracting FDI is to reduce the information asymmetries to position a country or region on the radar of Multinational Enterprises (MNEs). There is also evidence showing a correlation among Investment Promotion Agencies (IPAs) with focused strategy and specialization, and a higher lead generation volume.¹⁷ Digital tools will be used to implement targeted activities in key strategic sectors. This operation aims to broaden the positive spillovers of FDI by implementing a supplier's program to assist local SMEs by strengthening their capacities to become suppliers of anchor companies. Evidence shows that SMEs that become providers of MNEs or larger exporters

¹⁰ The selection of the key sectors is being discussed with the government among the pre-selected strategic sectors. See [BELTRAIDE](#).

¹¹ Carballo J, et al, The Border Labyrinth (IDB 2016).

¹² [IMF, Belize: 2021 Article IV Consultation](#).

¹³ Idem.

¹⁴ Idem.

¹⁵ 94% of investors agreed that their respective companies had developed a strategy to achieve their ESG commitments ([Kearney, 2022](#)).

¹⁶ [Volpe Martincus, C., Carballo, J., Marra de Artiñano, I., & Blyde, J. \(2020, January\). How Effective is Investment Promotion?: Firm-Level Evidence. BID.](#)

¹⁷ [Volpe Martincus, C., & Sztajerowska, M. \(2019, July\) How to solve the investment promotion puzzle.](#)

(indirect exports), are more likely to export directly.¹⁸ The activities proposed in Component 2 will deal with these issues by implementing digital tools in investment promotion programs and creating a new suppliers' program.

- 2.8 **Enhance trade facilitation.** Belize has been working on various activities to improve trade facilitation. To date, Belize has implemented 34% of Category A, 0.4% of Category B, and 3.4% of Category C WTO TFA commitments.¹⁹ A comprehensive Trade Policy (2019-2030) has been crafted to guide reforms and action plans to develop a competitive economy by utilizing trade as a significant driver for inclusive and sustainable socio-economic development.²⁰ Belize has also been making efforts to modernize its trade regime and customs procedures, including digitalization. Belize's Customs utilizes ASYCUDA World and is currently updating to the latest version. Successful integration projects have been executed that provide further efficiencies and additional services, including piloting a virtual license application system (BELAPS). However, more work can be done to reduce transaction costs for trade and increase Belize's competitiveness.
- 2.9 The proposed operation will further advance Belize's trade-related automation effort and develop the ESW which includes the main trade regulatory agencies (OGAs). ESWs modernize trade, optimize revenue collection, and improve security at the borders. The single window concept creates a single-entry point for all information related to the clearance of goods. The implementation of the ESW will drastically simplify and streamline import and export regulations by enhancing inter-agency collaboration, simplifying procedures, and harmonizing data requirements and documents. Furthermore, the ESW would align Belize with international best practices and commitments under the WTO TFA and facilitate the participation of SMEs in international trade.
- 2.10 Conversations have started with the European Union (EU) to explore co-financing scenarios, given their expertise in the areas covered by the program. Currently, the outlook for this joint effort is very promising, and the project team will work towards this goal.
- 2.11 **Synergies and complementarities** have been identified with: (i) IDB Invest could consider working with foreign investors looking for complementary financing for their projects. The concept can be further expanded to incorporate the local commercial banks in potential syndicated positions to establish financing opportunities which would be an extension of the evaluation process; (ii) IDB Lab: Improving Livestock Sector Productivity and Climate Resilience in Belize (ATN/ME-16402-BL) (Belize Livestock Producers Association) which aims at improving productivity of firms in this sector and trade alliances with buyers; (iii) technical cooperations, that have been recently approved, support the institutional strengthening in investment promotion (RG-T4017); and preliminary steps like readiness assessments, identification of linkages gaps, and mapping investment processes (ATN/OC-18958-BL). The Program is also closely

¹⁸ Carballo, J.; Marra de Artiñano, I.; Ottaviano, G.; y Volpe Martincus, C., 2022. Linkages with Multinationals: What is the Effect on Domestic Firms' Exports? IDB Working Paper, forthcoming.

¹⁹ The TFA includes three categories for the country commitments, depending if they are easy to comply with (Cat A) or they need additional time (Cat B); or they need additional time and capacity building support (Cat C). See <https://tfadatabase.org/members/belize>.

²⁰ Ibid supra note 7.

coordinating and identifying synergies with the following loan operations in preparation: (i) Digital Innovation to Boost Economic Development in Belize (BL-L1039); (ii) Sustainable and Inclusive Belize (BL-L1041); and (iii) Promoting Sustainable Growth in the Blue Economy Program (BL-L1042). These programs include interventions for SMEs in different stages of development, supporting each of them a distinctive segment from micro to export ready firms, in key sectors of the economy.

- 2.12 **Strategic Alignment.** The program is consistent with the Second Update to the Institutional Strategy 2020-2024 (AB-3190-2) by aligning itself with the challenges of: (i) Economic Integration, supporting the digital capacities of the countries in fostering FDI, and increasing their participation in regional and Global Value Chains (GVCs); (ii) Institutional Capacity and Rule of Law by assisting the simplification and digitalization of processes, reducing the red tape for exports and investments; (iii) Productivity and Innovation by assisting local firms to increase their competitiveness to become suppliers of MNEs and large exporters; and (iv) Gender Equality by giving support to companies with female board members or shareholders. It is also aligned with the IDB Vision 2025 (AB-3266) regarding the strength of regional integration through the promotion of investment and participation in the GVCs. This program also aligns with the priorities, trade facilitation, and investment promotion defined in the Integration and Trade Sector Framework Document (GN-2715-11). Further alignment with IDB Group Country Strategy with Belize 2022-2025 (GN-3086), which identifies as a priority area: "Private sector productivity and sustainable growth, with a focus on MSMEs," more specifically "improving Belize's connectivity with regional and global markets, including export promotion, investment attraction, trade facilitation, through a Single Window for key FDI sectors, trade agreements, and support services for exporting firms." This operation is included in the 2022 Operational Program Report (GN-3087). Finally, this operation is aligned with the Horizon 2030 National Development Framework of Belize, specifically with Pillar 3 Economic Resilience, activity 2 "Develop the Domestic Market as a Springboard for Exports, Produce Quality Goods and Services and Expand Exports."²¹
- 2.13 **Objectives of the program.** The general objective of this operation is to improve Belize's trade and investment performance. The specific objectives are: (i) facilitate FDI flows into the country by simplifying and automating key investment procedures; (ii) increase FDI flows and their positive spillovers in the local economy through the improvement of investment promotion programs and the development of suppliers' program to accelerate processes of SMEs internationalization; and (iii) strengthen trade facilitation by simplifying and automating key trade procedures.
- 2.14 **Component 1. Facilitate investments in Belize through the implementation of a SIW (US\$2.5M).** It seeks to increase FDI flows to the country in the pilot sectors covered in the implementation of the digital SIW. Activities proposed: (i) regulatory and governance alignments; (ii) diagnostic of processes and measurement of KPIs; and (iii) technological development and implementation of key FDI processes on the SIW, integrating different platforms and ensuring sustainability.

²¹ [Horizon 2030 National Framework of Belize.](#)

- 2.15 **Component 2. Export Development and Investment Promotion (US\$3.5M).** The objective is to increase the positive spillovers of FDI in the local economy through the improvement of investment promotion programs and the development of a new suppliers' program to accelerate SMEs internationalization, which will promote the growth of indirect exports of the local firms in Belize. Proposed activities: (i) FDI promotion programs (including lead generation, facilitation, and aftercare services) through the adoption of new digital tools; (ii) export development through strengthening capacities of the local firms²² (goods and services) for their competitive insertion in GVCs, i.e.: adoption of international management standards, upskilling (managerial and technical skills), or certifications on required technological, sustainability, and quality issues.
- 2.16 **Component 3. Trade Facilitation (US\$1.2M).** It seeks to increase the competitiveness of exporters through greater trade facilitation. It will finance, among others, activities of: (i) gap analysis of the current platform and identification of barriers from a triple perspective: technology, usability, and integration with international systems; (ii) development of an operational digital one-stop shop that simplifies and automates key trade procedures, in alignment and compatibility with ASYCUDA World.
- 2.17 **Other costs (US\$0.8M):** Project Implementation Unit (PIU), audits, mid-term, and final evaluation.
- 2.18 **Results and beneficiaries.** The results indicators associated with specific development objectives will measure increased FDI flows into targeted sectors covered by the SIW, decreased time required to obtain regulatory approvals for those sectors; increased direct and indirect exports of targeted SMEs; and reduction in time of export and import procedures. The beneficiary population are local companies -especially SMEs- that will link with international firms and exporters, and local talent susceptible to be employed by current and new investments.
- 2.19 **Modality:** Specific investment. This program requires specific investments in technical assistance, software development, and capacity building.

III. SECTOR KNOWLEDGE AND PREPARATION PLAN

- 3.1 **Bank and Sector Knowledge:** There is knowledge generated through books and internal papers: Mauricio Mesquita y Ernesto Stein: "[Trading Promises for Results](#)" (IDB 2019) on the need to implement trade facilitation measures to improve trade performance; Margarita Libby, "[Business Climate for Competitiveness in the Americas: Simplification of Procedures to Promote Competitiveness](#)" (2011), Granados, Jaime, "Lessons learned about Single International Trade Windows (VUCE)"(2015); Libby, Margarita "Reflections on good practices to create VUCES and SIWs"(2021); and Piedra, Luis "Strategy for the creation of SIWs" (2021, soon to be published), as well as operative knowledge acquired through operations designing and implementing ESW in LAC and SIWs (ATN/OC-17357-CO, Support implementation of Exports of Services Policies and Trade Facilitation;

²² The selection criteria will include, among others: sector, size, number of employees, sales volume, and exports/imports volume.

4754/OC-EC, National System of Facilitation and Attraction of Investments; CR-L1146, Program of Economic Reactivation based on Employment and FDI).

- 3.2 **Lessons learned.** This program will benefit from the lessons learned in BL-CC20055: (i) close work and coordination with a government counterpart that is willing and committed to take action and absorb knowledge; (ii) the incorporation of private sector perspectives in the design; and (iii) execution of the project and an approach that is flexible enough to allow adjustments to changing conditions.
- 3.3 These align with lessons learned in previous ESW, SIW and Export and FDI suppliers' operations implemented in the region: (i) assess readiness of various agencies involved in the implementation of a ESW to develop a smart asymmetric deployment of the technological tool; (ii) instead of pursuing a broad scope of investment procedures, two key sectors will be selected in order to be more strategic and efficient and have full sets of specific types of businesses implementation procedures analyzed; (iii) alignment with national strategy in the selection of sectors to multiply the benefits; (iv) selection of a "champion" to lead the process and bring consensus; (v) information about local providers and talent is important, but needs to be strengthen with interventions of capacity building to move the local industry to the standards and specific skills that foreign investors require in order to engage with local providers and talent; and (vi) the development of a ESW should be done in close coordination with Customs and its current digital system, while observing the level of readiness of other agencies involved.
- 3.4 **Environmental and social aspects.** Based on the Environmental and Social Policy Framework (ESPF), the operation is Category C because its resources do not finance physical infrastructure, do not involve construction works, or cause physical modification of the environment. Therefore, it is estimated that the operation will not cause direct, indirect, or cumulative negative environmental and/or social risks or impacts, or they will be minimal without requiring mitigation measures.

IV. TECHNICAL ASPECTS, ENVIRONMENTAL RISKS AND EXECUTION AND FIDUCIARY ASPECTS

- 4.1 **Dimensioning and execution mechanism.** The operation will be a specific investment loan for US\$8,000,000. The disbursement period will be five years, and the Executing Agency will be the Ministry of Finance, Economic Development, and Investment (MFEDI). The MFEDI will be responsible for the project management, fiduciary, monitoring, and evaluation functions as well as coordination with the technical ministries, departments, and agencies of Government.
- 4.2 **Fiduciary Aspects** **Fiduciary Aspects:** Procurements financed by the operation will follow policies GN-2349-15 and GN-2350-15, and the financial management function will be guided by policy OP-273-12. So far, no exceptions to these policies are anticipated. The institutional capacity analysis of the MFEDI is being done using the ICAP methodology and the results, including the fiduciary risks, will be elaborated in the POD. However, one of the main risks to implementation identified so far is that, though MFEDI has experience implementing projects financed by other multilateral development banks, it does not have experience implementing

IDB-financed projects. To mitigate this risk, the MFEDI will be trained and supported by the Bank's team on fiduciary and other policies of the Bank.

- 4.3 **Retroactive financing and recognition of expenses** are not expected under the operation.
- 4.4 **Risks.** The preliminary evaluation identified a medium risk of coordination. It is related to the need for participation and interaction of multiple agencies in the development and implementation of both single windows (trade and investment), as each is responsible in the back end for different procedures, but a unique entry point for the user. It is mitigated through: (i) the incorporation of an adequate mechanism of interinstitutional governance; (ii) identification and communication of advantages for each stakeholder; and (iii) legislative mandate of project leadership and governance.

IV. RESOURCES AND TIMETABLE

- 5.1 The POD is expected to be distributed to the QRR on 06/08/22, DLP approval by OPC on 07/15/22, and Board approval on 08/31/22. Resources from the transactional budget for up to US\$78,600 will be used for this purpose.

Annexes

- I. Environmental and Social Review Summary (ESRS)
- II. Timetable and Preparation Resources
- III. Filters for determining the processing track

SUMMARY OF THE ENVIRONMENTAL AND SOCIAL REVIEW

A. Environmental impact

- 1.1 Considering that the operation will have minimal or null environmental and social impacts, that there are no substantial or high socio-environmental risks and that the risk of natural disasters and climate change are low, there are no specific requirements derived from the Environmental and Social Policy Framework (ESPF).

B. Environmental and Social Performance Standards (ESPSs)

2.1 ESPS 1 - Assessment and Management of Environmental and Social Risks and Impacts. The project has no environmental and social impacts and/or risks therefore no Environmental and Social Management System (ESMS) will be prepared for the operation as defined under ESPS 1.

2.2 ESPS 2 - Labor and Working Conditions. The Executing Agency will prepare and maintain an Environmental and Social Management System (ESMS) for the operation with specific elements related to Labor and Working Conditions under ESPS 2.

2.3 ESPS 10 - Stakeholder Engagement and Information Disclosure. The Borrower will operate a Grievance Redress Mechanism at the Project level (direct and contracted).

CONFIDENTIAL

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